

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6743

BILL NUMBER: HB 1257

DATE PREPARED: Dec 20, 2000

BILL AMENDED:

SUBJECT: Martinsville Food and Beverage Tax.

FISCAL ANALYST: Chris Baker

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FUNDS AFFECTED: **GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

LOCAL IMPACT	CY 2001	CY 2002	CY 2003
Local Revenues	61,200	254,900	265,400
Local Expenditures			
Net Increase (Decrease)	61,200	254,900	265,400

Summary of Legislation: The bill permits Martinsville to impose a 1% food and beverage tax to provide funds for city hall improvements, police and fire station construction, sanitary sewer and wastewater facility improvements, and storm sewer drainage improvements.

Effective Date: July 1, 2001.

Explanation of State Expenditures: The Department of State Revenue (DOR) administers, audits, and collects local food and beverage taxes. The DOR's current resources are sufficient to absorb the additional costs associated with this proposal.

Explanation of State Revenues:

Explanation of Local Expenditures: Funds generated by this food and beverage tax could be used exclusively for renovating the city hall, constructing new police or fire stations, and improving the city's sanitary sewers, wastewater facilities, or storm water drainage systems.

Explanation of Local Revenues: This bill allows the city of Martinsville to adopt a 1% tax on food and beverages prepared and served for sale in the city of Martinsville in Morgan County. The estimated revenues

are \$61,200 for CY 2001, \$254,900 for CY 2002, and \$265,400 for CY 2003.

Background: According to the most recent U.S. Census data, total food and beverage sales in Morgan County for CY 1997 were \$45,102,000. Based on this amount, a 1% food and beverage tax would have generated an additional \$451,020, or 1% of the total sales. Before projecting future revenues, this figure must be adjusted to reflect sales of prepared foods (such as those sold in supermarkets) which would be subject to the proposed tax but are not included in the Census data. An additional 10% of the \$451,020 projection is added to establish a CY 1997 baseline of \$496,122 for Morgan County.

The average growth rate of food and beverage-related total sales as reported by the U.S. Census Bureau from CY 1992 to CY 1997 was approximately 4.1%. This rate was used to project sales of food and beverage through CY 2003. However, the proposed tax would be applied only in the city of Martinsville, not throughout Morgan County. It was estimated that about 95% of food and beverage sales in Morgan County are transacted in Martinsville and Mooresville. Mooresville currently imposes a 1% food and beverage tax and collected \$284,800 in CY 1999. This total represents 52.9% of the projected Morgan county total in CY 1999, and after subtracting 5% for other localities, Martinsville's share of total food and beverage tax was estimated at 42% ($52.9\% + 5\% + 42\% = 100\%$). This percentage was multiplied by the county projections for CY 2001, 2002, and 2003 to produce the revenue estimates of \$61,200, \$254,900, \$265,400 respectively.

Due to the effective date of July 1, 2000, Martinsville would likely collect taxes on food and beverage sales for the fourth quarter of the city's fiscal year. The actual expected impact for CY 2000 would be one-fourth of the annual projection, or \$61,200.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: City of Martinsville.

Information Sources: Morgan County Health Department; U.S. Census Bureau.